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MAUER LANDS TOP CITI SYNDICATE SLOT

Mike Mauer has been tapped to lead the leveraged syndicate area at **Citigroup**. High-yield bond, leveraged loan and emerging market bond syndicates all report to him, as well as leveraged finance origination and high-grade loan origination. He was previously overall head of credit

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Primus Eyes CLO Contracts
Primus Guaranty is considering buying collateralized loan obligations.
See story, page 5

PRECISION DRILLING BANKS PITCH NOVEL SPLIT OID

Royal Bank of Canada and **Deutsche Bank** are considering offering a split original issue discount on **Precision Drilling**'s "B" loan. The banks have been pushing the discount down for the past month—it hit 80 last week—which is too low from some collateralized loan obligation managers who are barred from buying that low. In order to try and appease all potential investors, the banks are

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A Revolver Play?

LEHMAN HOLDS ON TO ADMIN ROLES

Lehman Brothers is refusing to step down as administrative agent on a number of loan deals, waiting out borrowers as it tries to ease its way out of unfunded loan commitments. Part of the bankrupt firm's strategy, market players said, is to buy time while new owner **Barclays Capital** decides which names it wants to keep and which it wants to ditch. But Lehman is also believed to be using its position as leverage to pressure companies to let the bank out of its revolver commitments.

As admin agent, Lehman is responsible for collecting payments from lenders and

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MANAGERS PREP UNRATED FUNDS

Bombarded by issuer downgrades that are overflowing their CCC buckets, loan portfolio managers are looking to set up funds that will not be rated and will have fewer ratings-based requirements. These funds will almost certainly have low or no leverage, market players said, and probably will not have the type of ratings-based structural requirements found in collateralized loan obligations.

CLOs have been plagued by loans being downgraded to CCC, and many are fast approaching or have already reached their limit on the amount of CCC-rated debt they can

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MAUER LANDS

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sales. There had been widespread speculation he would be leaving the bank in the latest round of management cuts.

As first reported on *Credit Investment News'* Web site Tuesday, Mauer now reports to **Richard Zogheb**, co-head of North American origination. A spokeswoman confirmed the moves, which are effective immediately. Mauer did not return a call.

The move comes after cuts two weeks ago that included **Judith Fishlow-Minter**, head of loan syndications, and **Julie Persily**, co-head of leveraged finance (CIN, 11/24). Persily's co-head **Barbara Matas** is now the sole head of leveraged finance, reporting to Mauer. **Jon Calder**, head of credit sales in North America, also found out he would no longer hold his position at that time. Calder is considering other roles at Citi or may leave the bank outright (11/24). **Carolyn Kee**, the head of investment-grade loan origination, also now reports to Mauer. Matas and Kee both previously reported to Zogheb.

Initially many market players had suggested Mauer was among those who would be out of a job two weeks ago. But reports of his demise at Citi turned out to be greatly exaggerated and his landing in the top leveraged syndicate spot is considered something of a coup.

Vincent Lima, head of high-yield bond syndicate, has left the firm. He was not part of the cuts that occurred last week. **John McCauley**, director, will take over responsibilities for high-yield bond syndicate and report into Mauer.

The head of emerging markets bond syndicate remains **Geoff Hunter**, who now also reports to Mauer. He previously reported to Zogheb. Emerging market bond origination is headed by **Atiq ur-Rehman**, who is based in Dubai. ur-Rehman reports into **Tyler Dickson**, who is overall head of global capital markets origination. *–K.H.*

PRECISION DRILLING

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considering splitting the OID, offering $75-100 million of the $400 million tranche at 85, and the rest at 80.

Some managers, depending on the indentures within their CLOs, are forced to mark-to-market credits bought below 85. Above this price, a fund can mark them at par. "If you buy anything below [a certain price], you don't get full credit for it because it's too stressed," said a portfolio manager.

Many investors said this is the first time they have seen a split OID, and one market player said the banks would likely increase pricing on the chunk with the 85 OID to even it out economically. "I would assume there would be LIBOR plus 700 on the 85," he said. "[Whether they do the split structure] depends on the demand that each structure has. They're not going to do it if there's only $25 million in demand [for the 85]." Current price talk for the 80 chunk is LIBOR plus 6%, up from initial price talk of LIBOR plus 5%. A DB banker declined comment; an RBC banker did not return a call.

Another investor said this could be something the primary market would see going forward if it works. Banks first talked the OID in the high 80s. Two weeks ago it was said to be 86 (CIN, 11/24). Last week it settled at 80. "It's got to be [like this] to get done in this market," a third investor said. "Deals that just came to the [secondary] market are trading there."

The facility, which also includes a $400 million revolver and a $400 million term loan "A," will back Calgary-based Precision's $2 billion acquisition of **Grey Wolf**. Calls to a Precision spokeswoman were not returned. *—Libby Sallaberry*

LEHMAN HOLDS

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funding a company's drawdown request. It also collects interest payments from the company to pay lenders. A Lehman spokesman declined comment.

While many had anticipated Lehman would give up its position and let another bank step in or Barclays would step in, there is a monetary value for Lehman to stay put. The bank gets paid on an annual basis to be the admin agent, and it currently can perform that role, according to one market player. "They have folks that can do it, that can wire money to the banks when funding, and from the banks. They can perform their duties." Typically an administrative agent makes $100,000-150,000 to do so, a relatively small fee.

A big issue, however, is that along with being the admin agent, Lehman, in most instances, holds a portion of that company's revolver. It is unclear how many revolvers Lehman is committed to. Since **Lehman Brothers Holdings** filed Sept. 15, the bank has been refusing to fund its revolver obligations. Recently, **TPG-Austin Portfolio Holdings** filed a motion to force **Lehman Commercial Paper Inc.**—the entity in which most loan transactions took place—to fund its $100 million revolver or let it seek replacement funding (CIN, 11/21). One banker said that any move Lehman makes is done with the intention of being released from its revolver commitment, and that is a driving force in not stepping down as opposed to biding time for Barclays. "The primary interest is getting out from under the unfunded obligation," he said.

The banker suggested Lehman could be holding the admin role over companies' heads, using it as leverage to try and force the company to let it get out of its revolver obligation. "They have a bunch of unfunded revolver obligations they know they can't meet," he said. "If Lehman is dealing with a company and the company says transfer the admin agent role to someone else, the Lehman person would say, 'How about canceling my obligation in the revolver?' They are using the admin agency role as leverage to get out of the revolver position."

If Lehman were to transfer the revolver to another bank, there

is a question if the deal is sold at a discount, would Lehman have to make up that discount, which many said it would. The move would end up costing Lehman money.

And while some banks have taken on the admin role for Lehman deals, another banker said there is a lot of negotiating on the new bank's part. Banks looking to take over the role tell the borrower they will do so, but only if they don't have to take over Lehman's revolver commitment, which many companies are not agreeing to. "The company says, 'You can take the admin if you fund [the revolver at] par,'" which the banker said is laughable since no revolver is trading at par in the current market.

—Kristen Haunss

MANAGERS LOOK

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hold. This has been forcing managers to sell, taking away some of their flexibility on names they hold in their portfolio. "It's going to put some stress on the CLOs because these were never designed to have CCC buckets full," one trader said. CLOs are also restricted by ratings on the portfolios themselves. "Maybe we should just pull them off," the trader said of ratings on loan portfolios. "AAA is just a label."

"At the moment there are a number of funds—hedge funds, special opportunity funds, private equity funds—who are allocating capital specifically for the purpose of buying institutional loans. They're structuring them really as unlevered funds," said **Randy Schwimmer**, senior managing director and head of capital markets at **Churchill Financial**. "Whoever owns the equity in those funds will have to make a case-by-case determination of how they want to structure it."

Several market players said rated funds will be replaced by low- or no-leverage credit opportunity funds such as those recently opened by **Cerberus Capital Management** and **Goldman Sachs**. Vehicles with no margin calls will have the flexibility to hold loans until maturity, one portfolio manager explained, which could yield huge returns on today's undervalued names. "You just sit and wait," he said. But securing the capital needed to finance such a fund is still a major hurdle, the trader conceded, and will be until investors have more confidence in the market.

—Chloe Lutts

Loose Change

While many market players may not have a lot to be thankful for—loans trading in the 60s, bonuses being cut daily, autos on the rocks (which is not quite as good as scotch on the rocks, which some of you may need right about now)—there are four banks that were giving thanks last Thursday.

We have a feeling this is how the blessing went Thursday afternoon at the tables of the CEOs of **Citigroup**, **Deutsche Bank**, **The Royal Bank of Scotland** and **Toronto-Dominion Bank**. "Thank you KPMG for stating the leveraged buyout of **Bell Canada** would cause the company to be insolvent. Thank you for possibly relieving our balance sheets of multi-billions of dollars of commitments we had made to finance the buyout. And thank you for making this decision now, giving us extra time to try and clean up our balance sheets before the end of Q4." And one last wish from the table of **Josef Ackerman**: "If Santa is listening, can you do anything about **Huntsman**/**Hexion** for Christmas?"

And if you're going for the scotch, we recommend Macallan or some Johnny Walker Blue.

Quote Of The Week

"At the moment there are a number of funds—hedge funds, special opportunity funds, private equity funds—who are allocating capital specifically for the purpose of buying institutional loans."—**Randy Schwimmer**, *senior managing director and head of capital markets at* ***Churchill Financial***, *on new unlevered, unrated funds eyeing the loan market (see story, page 1).*

One Year Ago In The Credit Markets

The syndication of **Lyondell Chemical**'s term loan was pushed back by leads **Citigroup**, **Goldman Sachs**, **Merrill Lynch**, **ABN AMRO** and **UBS** due to deteriorating market conditions. [Lyondell's term loan traded up two points last week to 42-44.]

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